

Message Text

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SUBJECT: ECONOMIC SITREP NO. 33, FRIDAY, DECEMBER 17

REF: ROME 20390

1. SUMMARY. MEETING THIS WEEK BETWEEN GOVERNMENT AND LABOR LEADERS ON ECONOMIC POLICY PRODUCED INCONCLUSIVE RESULTS BUT A COUPLE OF SURPRISES NEVERTHELESS. ANDREOTTI'S SUGGESTION THAT RATIONING SCHEME FOR FRESH BEEF AND GASOLINE BEING PREPARED HAS UNSETTLED MANY SAVE THE FEW ON THE LEFT WHO HAVE ADVOCATED IT. FAINT SUGGESTIONS ARE EMERGING THAT LABOR ATTITUDE MAY BE SOFTENING ON QUESTION OF ADJUSTMENTS OF WAGE COST-OF-LIVING ESCALATOR. U.K. LETTER OF INTENT FOR IMF STANDBY NOT EVEN REPORTED IN MAJOR DAILIES. ANNUALIZED DATA THROUGH THIRD QUARTER SHOWS REAL GROWTH OF GROSS DOMESTIC PRODUCT IN 1976 OF 5.3 PERCENT, A REMARKABLE RECOVERY FROM 1975 BUT PAID FOR AGAIN BY A LARGE DEFICIT IN THE TRADE BALANCE. GOVERNMENT AND UNIONS AGREE ON NEW PUBLIC EMPLOYEE CONTRACTS WHICH WILL COST 900 BILLION LIRE IN 1977. STOCK MARKET DECLINED SLIGHTLY
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AFTER FIAT-LEBYA DEAL INDUCED SLIGHT SURGE. INTERBANK INTEREST RATE HOLD AT 17.375 PERCENT. LIRA RATE UNCHANGED ON CONTINUING LOW DEMAND FOR DOLLARS. END SUMMARY.

2. RESULTS OF GOVERNMENT AND LABOR MEETING ON ECONOMY

INCONCLUSIVE. MAJOR POINTS WHICH GOVERNMENT MADE AT
MEETING WITH LABOR LEADERS DECEMBER 15 ON ECONOMY WERE:
(A) AND ASSURANCE THAT NO MORE NEW TAXES WERE PLANNED
FOR 1977, ALTHOUGH POSSIBLY NEW TAXES WILL BE NECESSARY
IN 1978; (HOWEVER, FINANCING OF POSSIBLE FISCALIZATION
BY VALUE ADDED TAX INCREASES STILL LURKS IN SHADOW);
(B) A CONTINGENCY PLAN WAS IN PREPARATION TO PROVIDE
RATIONING OF SOME PETROLEUM PRODUCTS (GASOLINE AND FUEL
OIL FOR HEATING) AND FRESH BEEF, WHICH COULD BE
IMPLEMENTED WITH 20 DAYS' NOTICE. GOVERNMENT DID NOT
SPECIFY INVESTMENT PLANS BEYOND THOSE ALREADY NOTED AT
PREVIOUS MEETING, DID NOT SPECIFY THE EXTENT WHICH IT
MIGHT FISCALIZED SOCIAL INSURANCE COSTS OF BUSINESSES
AND DID NOT SPECIFY HOW MUCH REDUCTION IN THE COST OF
LABOR WOULD BE CONSIDERED ENOUGH. GOVERNMENT DID APPARENTLY
MAKE CLEAR THAT PART OF REDUCTION WOULD
HAVE TO COME FROM SOME ADJUSTMENT IN THE WAGE COST-
OF-LIVING ESCALATOR. UNIONS, FOR THEIR PART, WHILE
DECLARING THEMSELVES UNSATISFIED WITH GOVERNMENT'S
RESPONSE ON INVESTMENT AND NEW EMPLOYMENT, AND DIS-
BELIEVING WITH REGARD TO NO FURTHER NEW TAXES IN 1977,
CONSIDERED THEMSELVES FORTHECOMING BY INDICATING THEIR
WILLINGNESS TO NEGOTIATE ON VACATIONS, HOLIDAYS, SHIFTS,
LABOR MOBILITY, EQUALIZATION OF THE ESCALATOR FOR
ALL CATEGORIES OF WAGE AND SALARIED WORKERS AND ELEIMINA-
TION OF ITS LINK TO SEVERANCE PAY CALCULATIONS, ALL
PREDICATED ON ACCEPTANCE BY GOVERNMENT AND INDUSTRY
THAT THE ESCALATOR SYSTEM ITSELF WOULD NOT BE TOUCHED.
WHILE TO ALL APPEARANCES THE MEETING RESULTED IN
BUT ANOTHER IMPASSE, THERE HAVE APPEARED SIGNS THAT
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THE GOVERNMENT'S FIRM REFUSAL TO BE DRAWN INTO DEFINING
WHAT ACTIONS IT WOULD TAKE TO REDUCE LABOR COSTS
FAILING POSITIVE RESULTS FROM LABOR AND INDUSTRY NEGOTIAT-
IONS, AND INSISTENCE THAT THE KEY LIES WITH THE WAGE COST-
OF-LIVING EXCALATOR, IS FINALLY RESULTING IN SOME
VISIBLE EROSION OF LABOR'S OBDDURATE OPPOSITON. NEXT
GOI-LABOR UNION MEETING SCHEDULED FOR DECEMBER 29.

3. RATIONING GASOLINE AND FRESH BEEF. A SURPRISE
OUTCOME OF THE MEETING BETWEEN GOVERNMENT AND LABOR
WAS THE RESURRECTION OF SPECTRE OF RATIONING, LONG SINCE
THOUGHT DEAD AND BURIED ATLEAST AS FAR AS GASOLINE WAS
CONCERNED. ANDREOTTI'S ANNOUNCEMENT THAT A CONTINGENCY
PLAN WAS IN PREPARATION WHICH COULD BE PUT INTO EFFECT WITH
20 DAYS NOTICE IS THOUGHT BY SOME TO HAVE BEEN PROPOSED AS
A CONCESSION TO LABOT AND BY OTHER AS A SCARE TACTIC TO
CALL ATTENTION TO FACT THAT CRISIS IS NOT OVER, AND IN
FACT COULD WORSEN ON THE BALANCE OF PAYMENTS SIDE.

CHANCES OF ACTUAL IMPLEMENTATION SEEM FAIRLY REMOTE
PRIMARILY BECAUSE OF OPPOSITION SUCH A MEASURE WOULD FACE,
ESPECIALLY ON GASOLINE, FROM HIS OWN CABINET, WHICH HAS
ALREADY REJECTED ONCE SUCH AN EXPEDIENCY IN A WHITE
PAPER TO PARLIAMENT. NEVERTHELESS, ANDREOTTI'S ANNOUNCE-
MENT THAT AN "EMERGENCY COMMITTEE" WAS BEING FORMED
WITHIN THE CABINET TO STUDY MEASURES WHICH COULD BE
INTRODUCED TO QUICKLY DEPRESS INTERNAL CONSUMPTION IF
NEEDED, DOES DRAW ATTENTION TO A POTENTIAL WORSENING OF
ECONOMIC SITUATION IF STABILIZATION PLAN IS NOT FULLY
IMPLEMENTED WHEN VARIOUS FOREIGN EXCHANGE CONTROLS
EXPIRES.

4. UK LETTER OF INTENT. THE UK LETTER OF INTENT TO IMF
OUTLINING LARGE PUBLIC EXPENDITURE CUTS,
A TWO-YEAR ECONOMIC RECOVER PLAN,
AND SECRETARY SIMON'S STATEMENTS ANNOUNCING A FACILITATIVE
\$500 MILLION SWAP, NOTABLE FOR LACK OF COVERAGE IN ITALIAN
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PRESS WITH MAJOR DAILIES NOT CARRYING STORY AT ALL.

5. REAL GROWTH IN 1976 NEARING 5.3 PERCENT. THIRD
QUARTER DATA ON GROSS DOMESTIC PRODUCT OBTAINED ON
CONFIDENTIAL BASIS BY EMBASSY FROM ISCO SHOWS REAL
GDP FOR 1976 APPROACHING 5.3 PERCENT ON ANNUAL BASIS.
IMPORTS ON ANNUAL BASIS HAVE INCREASED BY 12.1 PERCENT
IN VOLUME WHILE EXPORTS HAVE INCREASED BY 9.5 PERCENT.
INVESTMENT ON ANNUAL BASIS HAS BEEN FLAT.

6. GOVERNMENT AND UNIONS AGREE ON NEW PUBLIC EMPLOYEES
CONTRACT. (SEE SEPTEL DECEMBER 17). NEW THREE YEAR CONTRACT
COVERING MORE THAN 2 MILLION PUBLIC EMPLOYEES WAS AGREED UPON
IN MEETING BETWEEN TWO PARTIES DECEMBER 16. NEW CONTRACT,
IF APPROVED BY RANK AND FILE, COMPRISES RETROACTIVE
SETTLEMENT FOR 1976 (SOME CONTRACTS EXPIRED IN JAN-
UARY WHILE OTHER EXPIRED IN JULY OR SOME OTHER MONTH DURING
THE YEAR. ACCORDING TO PRESS REPORTS, UNIONS ACCEPTED
GOVERNMENT PLAN WHICH WILL COST 900 BILLION LIRE IN 1977
(WHICH INCLUDES RETROACTIVE PAYMENTS FOR 1976) AND 1,200
BILLION LIRE IN 1978 FOR A TOTAL COST OF 2,100 BILLION LIRE.
UNION PROPOSAL WOULD HAVE COST 2,300 BILLION LIRE IN
TOTAL AND WOULD HAVE BEEN MORE HEAVILY FRONTEND LOADED.

7. MARKET DEVELOPMENTS. LIRA/DOLLAR RATE ON THURSDAY,
DECEMBER 16 WAS 865.425 AND ON FRIDAY, DECEMBER 17 RATE
FIXED AT 865.375. MARKET DEMAND FOR DOLLARS PERKED UP DECEMBER
16 REFLECTING RUMORS FORTHCOMING DECISION OF OPEC FOR AN
INCREASE IN OIL PRICE IN RANGE OF 15 PERCENT. DEMAND RETURNED TO
NORMAL LOW LEVEL TODAY. MONEY MARKET INTEREST RATES UNCHANGED

IN WEEK DECEMBER 9 TO 16. THREE MONTH INTERBANK RATE
17.375. LIRA/DOLLAR SPOT RATE UNCHANGED AT 865.425 ON
DECEMBER 16 COMPARED TO 865.325 ON DECEMBER 9; SIX MONTH
FORWARD RATE 950.525. AVERAGE YIELD ON SOLECTED MEDIUM AND
LONG-TERM BONDS STABLE AT 13.988 ON DECEMBER 15. STOCK
PRICES DECLINED A BIT FROM LEVELS ATTAINED IN AFTERMATH
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OF FIAT/LIBYA DEAL. STOCK MARKET INDEX 38.59 ON DECEMBER 16
COMPARED TO 39.93 ON DECEMBER 9 AND 40.82 ON DECEMBER 7
(2 JANUARY 1961 EQUALS 100).

8. ECONOMIC INDICATORS. COST OF LIVING INDEX
RELEASED BY ISTAT TODAY FOR NOVEMBER (216.1) SHOWS AN INCREASE
OF 2.1 PERCENT COMPARED TO OCTOBER AND A 21.4 PERCENT INCREASE
COMPARED TO NOVEMBER 1975.

9. NEXT SITREP. THURSDAY, DECEMBER 23

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